

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SS-15 NSC-05 PA-02 PRS-01 USIA-15

AID-05 CEA-01 CIAE-00 EB-07 FRB-01 INR-07 IO-10

NEA-09 NSAE-00 RSC-01 OPIC-06 SP-02 TRSE-00 CIEP-02

LAB-04 SIL-01 OMB-01 STR-04 L-02 AGR-10 /134 W

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R 071826Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8064

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 01979

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS--WEEK ENDING FEBRUARY 7

BEGIN SUMMARY: THE STOCK MARKET COOLED OFF THIS WEEK, AND
THE OTHER VITAL SIGNS OF THE UK ECONOMY CONTINUED TO SHOW
WEAKNESS. CONSUMER SPENDING ON RETAIL SALES SHOWS NO
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GROWTH AND 1974 WAS A DISASTER IN HOUSING/CONSTRUCTION

FIELDS. BUSINESS CONFIDENCE AND INVESTMENT INTENTIONS CONTINUE TO PLUMMET. BUSINESSMEN ALSO FORESEE LESS NEED FOR LABOR OVER THE COMING MONTHS, I.E. MORE UNEMPLOYMENT, AND INCREASING NUMBERS NOW FEEL THE OUTLOOK FOR EXPORTS IS POOR. THE TREND TO SHORT-TERM WORKING CONTINUES TO RISE. INDICATIONS FROM BUSINESS SURVEY GIVE SOME INDICATION OF A CORPORATE SECTOR FINANCIAL SQUEEZE, AS DOES THE GROWING LIST OF APPLICANTS FOR GOVERNMENT FINANCIAL ASSISTANCE (SEE SEPTTEL), BUT BANK ADVANCES DO NOT SEEM TO BE GROWING TO REFLECT THIS. UK OFFICIAL RESERVES SHOWED A MODEST INCREASE IN JANUARY AS A RESULT OF CONTINUED PUBLIC SECTOR BORROWING AND ADDITIONAL GOVERNMENTAL DRAWING ON THE HMG EURODOLLAR LOAN. INTEREST RATES IN BOTH THE EURODOLLAR AND LOCAL MARKETS CONTINUED TO FALL. END SUMMARY

1. CONSUMER SPENDING. THE INDEX OF REAL RETAIL SALES SHOWED A SLIGHT DECLINE IN DECEMBER AND CONTINUES OVER THE PAST 6 MONTHS TO SHOW NO GROWTH. THE NOVEMBER FIGURE WAS INFLATED BY PRE-BUDGET SPENDING, BUT SUCH SALES ARE ALSO

DOWN SLIGHTLY FROM THE PREVIOUS 3 MONTHS. DEC-
EMBER 110.8, NOVEMBER 112.8, OCTOBER 111.4, SEPTEMBER
112.2, AUGUST 111.4, JULY 109.2 (1971 EQUALS 100). FOR
THE YEAR RETAIL SALES VOLUME WAS 0.75 PERCENT BELOW 1973
(109.9/110.7).

2. CONSUMER CREDIT. HIRE PURCHASE (CONSUMER INSTALLMENT CREDIT) ROSE BY 5 PERCENT IN THE 4TH QUARTER OF 1974. FOR 1974 AS A WHOLE, HIRE PURCHASE CREDIT DECLINED BY 12 PERCENT OVER THE AMOUNT ADVANCED IN 1973.

3. HOUSING. IN THE WORST SINGLE MONTH FOR HOUSING STARTS IN THE POST-WAR ERA, CONSTRUCTION OF ONLY 6,000 PRIVATE HOMES BEGAN IN DECEMBER. FOR A DISMAL YEAR, TOTAL HOUSING STARTS WERE DOWN FROM 1973 BY 23 PERCENT, AND PRIVATE HOUSING STARTS FELL BY 53 PERCENT. IN THE 4TH QUARTER OF 1974 PRIVATE STARTS FELL BY 48 PERCENT OVER THE 3RD QUARTER.

4. BUSINESS CONFIDENCE. THE QUARTERLY CONFEDERATION OF
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BRITISH INDUSTRY (CBI) SURVEY INDICATES BUSINESS CONFIDENCE HAS WEAKENED FURTHER. THE SURVEY ALSO INDICATES THAT AN INCREASING NUMBER OF BUSINESS RESPONDENTS INTEND LESS INVESTMENT IN 1975 THAN IN THE PAST YEAR AND ARE LESS OPTIMISTIC ABOUT EXPORTS. MOST EXPECT THEIR LABOR FORCE TO REMAIN THE SAME, BUT ALMOST 43 PERCENT EXPECT IT TO DECREASE.

5. BUSINESS CONFIDENCE. THE MONTHLY FINANCIAL TIMES SURVEY ALSO SHOWS INCREASED PESSIMISM AMONG BUSINESSMEN. GLOOM HAS INCREASED ABOUT EXPORT PROSPECTS, LABOR REQUIREMENTS ARE SEEN AS LOWER THAN THE LAST SURVEY, AND COSTS ARE FORECAST TO BE HIGHER.

6. BUSINESS. PRE-TAX INDUSTRIAL PROFITS FELL BY 1.8 PERCENT IN JANUARY OVER THE PREVIOUS JANUARY. IN DECEMBER THEY FELL BY 33 PERCENT OVER A YEAR EARLIER.

7. BANK LENDING. BANK ADVANCES REMAINED ALMOST LEVEL IN THE PERIOD FROM DECEMBER 1 TO JANUARY 5. STERLING DEPOSITS JUMPED BY 618 MILLION POUNDS BUT ONLY 62 MILLION POUNDS OF THIS WAS IN INTEREST-BEARING DEPOSITS, GIVING

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FM AMEMBASSY LONDON

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INCREASED ROOM UNDER THE "GIRDLE" LIMITING THE INCREASE IN SUCH LIABILITIES.

8. UK OFFICIAL RESERVES INCREASED BY \$44 MILLION IN JANUARY ONLY AFTER THE ACCRUAL OF PUBLIC SECTOR BORROWINGS UNDER THE EXCHANGE COVER SCHEME TOTALING \$29 MILLION AND ADDITIONAL DRAWINGS OF \$700 MILLION ON THE \$2.5 BILLION EURODOLLAR LOAN (BRINGING TOTAL DRAWINGS ON THIS LOAN TO \$2.2 BILLION). PRESS ARTICLES REPORT ADDITIONAL BUILDUPS
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OF OIL PRODUCING STERLING BALANCES DURING THE MONTH - NOTABLY BY NIGERIA AND KUWAIT - BUT A FURTHER RUNDOWN BY MORE TRADITIONAL STERLING HOLDERS FOLLOWING THE ENDING OF THE STERLING GUARANTEE AGREEMENT IN DECEMBER 1974.

9. EXCHANGE RATE AND GOLD:

	1/30	2/6	CHANGE
EXCHANGE RATE	\$2.3775	\$2.3715	DOWN \$0.0060
EFFECTIVE DEPRECIATION			
(PERCENT)	21.9	21.6	UP 0.3
GOLD	\$177.50	\$173.50	DOWN \$4.00

10. FORWARD DISCOUNT ON STERLING:

	1/30	2/6	CHANGE
1 MONTH	1.05	1.35	UP 0.30
3 MONTHS	3.00	3.70	UP 0.70
6 MONTHS	6.00	6.80	UP 0.80

(ALL FIGURES IN CENTS)

11. EURODOLLAR INTEREST RATES:

	1/30	2/6	CHANGE
1 MONTH	6-3/4	6-1/2	DOWN 1/4
3 MONTHS	7-1/8	6-7/8	DOWN 1/4
6 MONTHS	8	7-1/8	DOWN 7/8

12. LOCAL AUTHORITY DEPOSIT RATES:

	1/30	2/6	CHANGE
1 MONTH	11-15/16	11-1/8	DOWN 13/16
3 MONTHS	12-1/16	11-7/8	DOWN 3/16
6 MONTHS	12-1/4	12	DOWN 1/4

13. THE MINIMUM LENDING RATE DROPPED TO 10-3/4 PERCENT,

DOWN 1/4 PERCENT FROM LAST FRIDAY'S RATE, ON FRIDAY, FEBRUARY 7, 1975.

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TAGS: ECON, UK
To: STATE
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